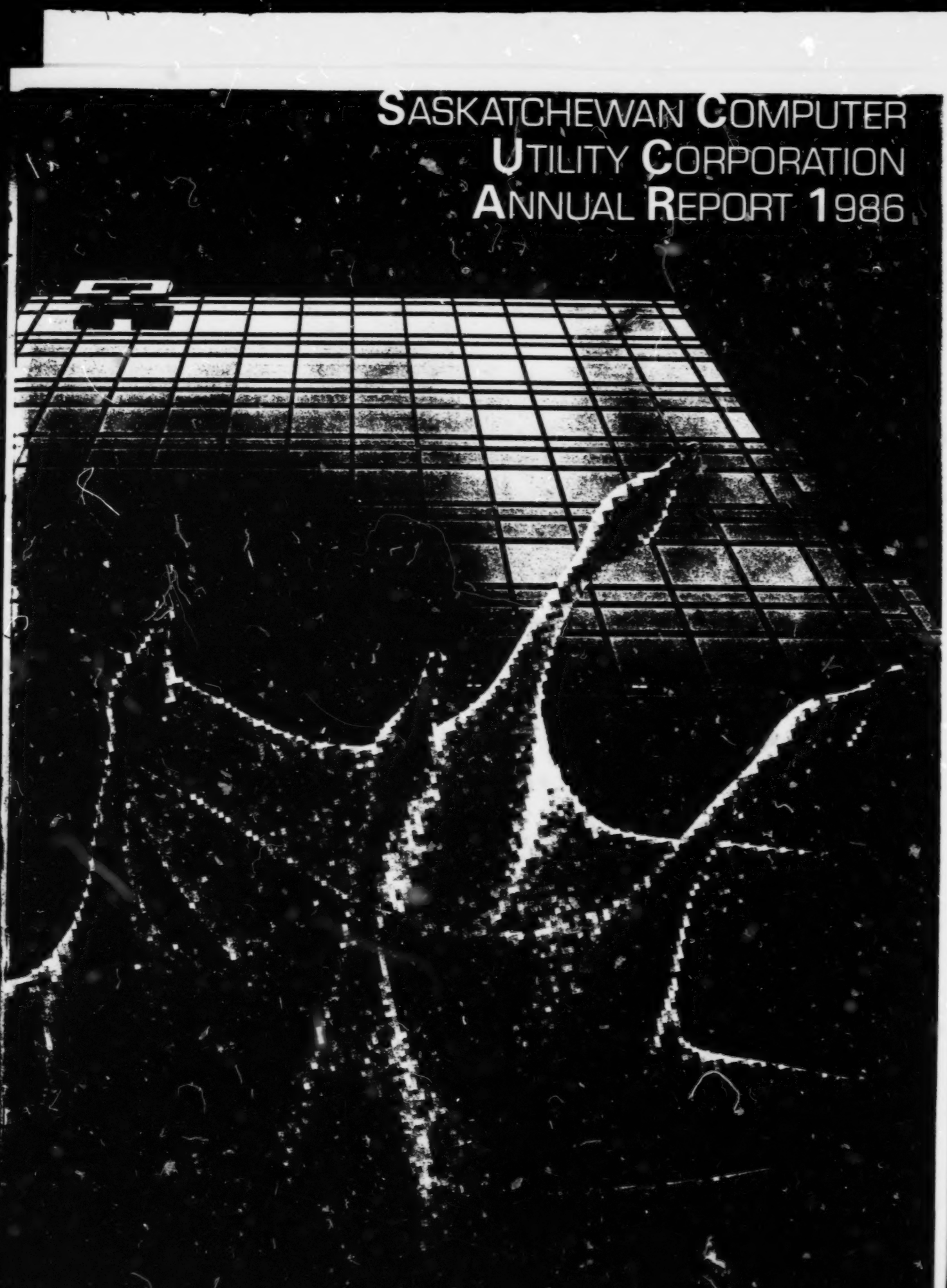
SASKATCHEWAN COMPUTER UTILITY CORPORATION ANNUAL REPORT 1986



The special effect on the cover is known as 'pixelizing'. To create this effect, separations can be segmented into hundreds or thousands of digitized squares, each containing a pure colour value, imparting a futuristic computer generated look.

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LETTER OF TRANSMITTAL

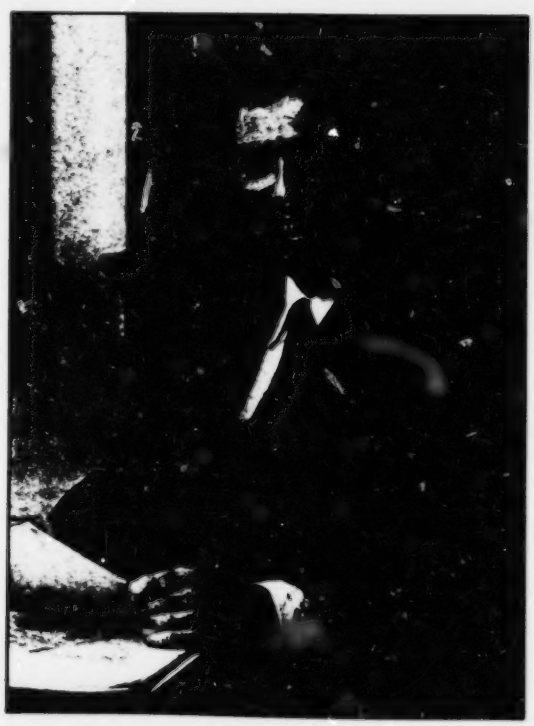
March 20, 1987
Regina, Saskatchewan

To His Honour
The Honourable Frederick W. Johnson
Lieutenant Governor of the
Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of the Saskatchewan Computer Utility Corporation for the year ending December 31, 1986 including the financial statements therefor duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with the Saskatchewan Computer Utility Corporation Act. I have the honour to be, Sir, your obedient servant.

Minister-In-Charge
Saskatchewan Computer
Utility Corporation



Honourable J. Gary Lane
Minister-In-Charge

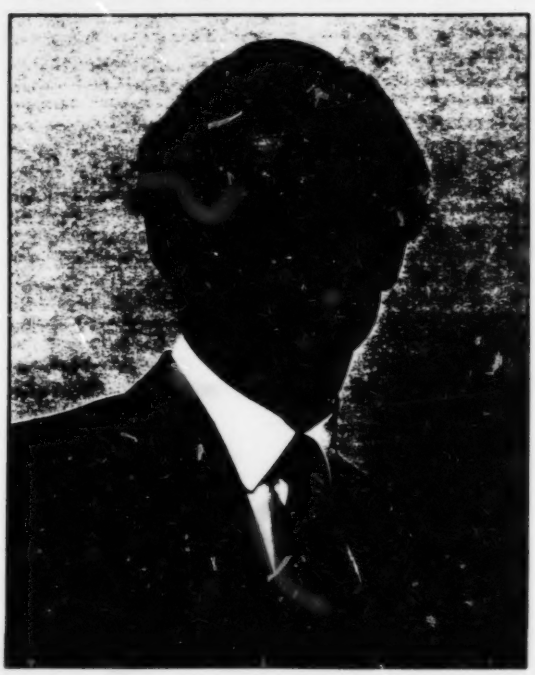
CHAIRMAN'S MESSAGE

Throughout 1986, the Corporation continued its strong financial and managerial performance.

Mr. Gerald B. Thom was named President in the early part of the year. He guided the implementation of a new corporate strategy which will better position SaskCOMP to continue operations in an ever changing industry.

The new corporate direction calls for a more assertive marketing program and a diversification of products to complement the Corporation's traditional shared processing services. The new products implemented in 1986 included Disaster Recovery Services, Dedicated Computer Services, remote computer operations and control, and a Videotex service to Agriculture.

Disaster Recovery Services offers backup processing for IBM and UNISYS (Sperry) computer centres in the event they experience a major operational disruption.



Dedicated Computer Services provide the Corporation's largest customers the opportunity to have greater control over their processing resources by using computers dedicated to their needs. These computers will be located at SaskCOMP's Regina Regional Centre. Each is accessible by remote control centres located at either the customer's site or at SaskCOMP's Head Office.

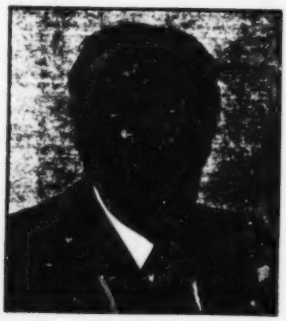
The Videotex service provides information databases, electronic mail, bulletin boards, and calculators to Saskatchewan "Agribusiness" with the use of Digital Equipment Corporation's computers located in Saskatoon.

In the last quarter of the year the Corporation consolidated staff from three different office locations (including most of its operating staff) into a new office. The relocation will provide better service to the Corporation's customers.

For the many accomplishments of 1986, I would like to express my appreciation to the members of the Board and to the Corporation's staff.

D. Gavin Koyl
Chairman of the Board

BOARD OF DIRECTORS



SaskCOMP Board of Directors:

Standing: I. Disbery, Secretary, Saskatchewan Crown Investments Corporation; L. Short, Saskatoon; L. Stewart, Pense; D. L. Birkmaier, Saskatoon; C. Reiter, Luseland; E. Grant, Saskatoon.

Seated: R. J. Milton, Regina; D. Gavin Koyl, Chairman, Regina; G. Thom, President; H. Seitz, Zehner.

Inset: Hon. J. Gary Lane, Minister-In-Charge, Regina; E. J. C. Dudley, Regina; J. Cailes, Shell Lake.

Audit Committee

Chairman: R. J. Milton
Ex Officio Member: D. Gavin Koyl
Member: D. L. Birkmaier
Member: E. J. C. Dudley

HIGHLIGHTS OF 1986

- A new corporate strategy was implemented which placed more effort and resources on a more assertive marketing program.
- Major service agreements were signed with several of the Corporation's largest customers. The agreements guarantee future annual revenues of $15,000,000 for the next few years from these customers.
- The Corporation established a new division to provide "Disaster Recovery Services" for data processing centres. SaskCOMP is the second Canadian company to provide backup computer processing services.
- 1986 Revenues increased 20% over the fiscal year 1985.

As part of the new corporate strategy, there is a greater emphasis on the Corporation's pre-sales efforts. Marketing representatives responsible for pre-sales in 1986 included:

Back Row: John Elliott, Ron Wild, Lloyd Chase, Doug Brescianl.

Seated: Gord Lucluk (Manager), Richard McAlister.

PRESIDENT'S REPORT

Since it's inception in 1973, SaskCOMP has provided the Province of Saskatchewan a positive return on its investment. Profit generated in the last four years exceeds the combined profit of the previous ten years.

Profit was realized while the Corporation undertook a plan to re-position itself with a new marketing strategy. A new marketing strategy was necessary in light of rapid technological change.

Historically, SaskCOMP has been a provider of shared computer processing. For the last number of years, technology and economies of scale have reduced the investment required to acquire hardware.

Gerald B. Thom
President

In parallel to cost reductions there have been improvements in the ease of use of computer equipment. As a result of these trends we believe there will be a reduced demand for shared processing services.

To position ourselves for the future, SaskCOMP believes it is necessary to undertake changes to our Corporate marketing strategy. These changes will ensure that the Corporation will anticipate our customers' needs and assure that our products meet those needs — for our existing customers and future customers.

These changes will provide a foundation for positive financial returns in future years and provide productivity tools for our customers' improved operations.

In the area of new products, SaskCOMP has undertaken major initiatives to provide dedicated services, disaster recovery services, informational databases, Videotex services to agriculture, and office automation products.

Tom Dagg
Vice President, Administration

The dedicated computer offering allows our larger customers to operate a dedicated computer on our computer site. This concept offers greater flexibility and control of computer resources while the customer receives the benefits of SaskCOMP's skills and resources in equipment acquisition, computer operations, and technical support.

The dedicated computer helps reduce SaskCOMP's increasingly complex computer environment. For our staff, it helps streamline the management of equipment planning and acquisition.

As part of the dedicated service, SaskCOMP has taken a technological lead by providing remote control centres. The remote control centre concept allows the remotely located computer equipment to be operated from the customer premises over high speed lines.

One of the needs satisfied by our move to our new offices was the establishment of a remote control centre. From our new office we can monitor and operate SaskCOMP computer equipment located in Wascana Centre. This remote control centre concept confirms the practicality and value of remote operation to our potential customers of the dedicated service offering.

Gerald Fiske
Vice President, Computer Services and
General Manager, Disaster Recovery Services

With an increasing amount of an organization's information stored and processed on computer devices, SaskCOMP has recognized the need to establish a backup processing service in the event of a disaster. At year end, equipment was installed for this purpose at our Saskatoon Regional Computer Centre. With this service SaskCOMP can provide disaster recovery service for IBM and UNISYS (Sperry) 1100 systems.

SaskCOMP is the second major company to provide disaster recovery services in Canada.

Since the agriculture industry is the primary industry of the province, there is a need for more readily available information to help that industry manage its many functions. SaskCOMP, along with Saskatchewan Agriculture and Sasktel, established a Videotex service to meet this need. The service is provided by DEC (Digital Equipment Corporation) computers located in Saskatoon. In 1986, a successful trial was completed, providing electronic mail, bulletin board, and agriculture data bases. The Videotex service will be fully operational in 1987. Customers will have access to these services via Sasktel's Agritex service.

Technology advancements in information processing has reached the point where informational data bases are now easy and economical to use by anyone with access to a computer terminal or personal computer. Along with Videotex services, SaskCOMP has undertaken additional data base services.

In 1986, the first data base was established jointly with the Saskatchewan Department of Consumer and Corporate Affairs. The general public has access to the department's "Corporate Registry". The primary user of the "Corporate Registry" is the Saskatchewan legal profession, which has a requirement to search for information on Saskatchewan's registered companies and non-profit organizations.

SaskCOMP has made its entry into office automation services employing its shared mainframe VM services. To meet the office automation needs of the Government of Saskatchewan, SaskCOMP offers IBM's PROFS, and DISPLAYWRITE/370 services for electronic mail, file storage and word processing.

In parallel to the new products, the Corporation has developed a new marketing strategy. This strategy brought about a reorganization of the Customer Services Division. The new organization has shown immediate results in service contracts and new business.

The reorganization helps place a sharper focus and more resources on the Corporation's pre-sales function. The pre-sales function includes those activities involved in prospect identification through to contract execution.

During the year the Corporation signed contracts with six major customers which guarantees an annual revenue from these customers of $15 million per year over the next few years. In addition, a long-term contract was completed with our major Computer Output to Microfiche (COM) customer which guarantees the continuity of this service for several years to come.

With SaskCOMP's purchasing power and size we were able to acquire a "total enterprise maintenance agreement (TEMA)" with our primary hardware vendor. This agreement offers us significant discounts on the services purchased from this vendor, and allows us to pass on savings to our major customers.

Revenues in 1986 amounted to $26,871,000, a 20% increase over 1985. Profit decreased to $1,881,000. Reduced profits are due to increased hardware costs, primarily the additional costs of the IBM 3090 processor and a new tape system installed in late 1985.

In October 1986, the Corporation moved to new offices at 1801 Hamilton Street. In addition to the benefit of the Remote Control Centre service, the Corporation consolidated support staff from 3 different office locations.

R. D. Nell
Vice President, Corporate Development

We are now within a few blocks of our major customers. This enhances the efforts of our Marketing division, and makes our marketing and product support staff more readily available to our customers.

On April 10, 1986, SaskCOMP and Local 911 of the Energy and Chemical Workers Union reached a new agreement. This agreement is for a 2 year period beginning October 1, 1985, and provides for a 3% wage increase for 1985-1986, and a 2½% increase for 1986-1987 for members of the Union.

Demands on our Board of Directors and staff were significant as a result of the implementation of our new Corporate Strategy. The Corporation's excellent performance is primarily due to the guidance and support of our Board and the flexibility and initiative of our staff.

To the Honourable J. Gary Lane, Minister-In-Charge, Mr. D. Gavin Koyl, Chairman of the Board, and to the Board of Directors, I would like to express the Corporation's appreciation.

Dennis Poulin
Vice President, Customer Services

To the Corporation's staff, we are appreciative of their co-operation and support. Due to their professionalism and energy we were able to meet the challenges of 1986 and establish a foundation for further implementation of the strategies established during the year.

Gerald B. Thom
President

FINANCIAL REVIEW

Revenues for 1986 reached $26,871,000, representing a 20% increase over 1985, which were $22,410,000. Profit for the year was down by $475,000 to $1,881,000. The corresponding profit figure for 1985 was $2,356,000.

Cash generated from operations in 1986 amounted to $4,572,000. The cash was used in part to acquire additional assets in the amount of $7,010,000 for SaskCOMP.

Cash was also used for debt repayment in the amount of $1,062,000 and $1,178,000 in dividend payments to Crown Investments Corporation.

Fixed asset investments at year-end, at cost, amounted to $17,170,000 as compared to $11,708,000 at the end of 1985. The Corporation used additional leased assets valued at $20,186,000 when new. The equivalent leased asset value for 1985 was $15,293,000.

Saskatchewan Computer Utility Corporation
10 Year Record of Progress 1977 - 1986

Financial	**1986**	**1985**	**1984**	**1983**	**1982**	**1981**	**1980**	**1979**	**1978***	**1977**
Revenue ($000's)	26,871	22,410	22,654	23,077	21,705	16,748	12,814	9,857	8,845	7,967
Expenses ($000's)	24,990	20,054	17,016	20,581	18,501	16,190	12,343	9,798	7,883	7,007
Net income ($000's)	1,881	2,356	5,638	2,496	3,204	558	471	59	962	960
Capital: Equity ($000's)	7,597	6,656*	5,599	2,780	2,674	2,804	2,804	2,804	2,804	2,780
Long-term debt (000's)	0	0	0	787	4,011	5,341	4,807	4,350	2,866	204
Employees										
Number of Employees	192	167	164	166	159	156	149	142	126	118
Revenue per Employee (000's)	140	134	138	139	137	107	86	69	71	61
Facilities										
Processing Power (Millions of Instructions per Second)	70.3	32.3	27.9	25.0	25.0	16.1	12.7	7.9	5.1	5.1
Data Storage Capacity:										
- On-line (Billions of Bytes)	348	219	193	143	96	76	41	27	18	10
- Off-line (No. of Reels & Cartridges in 000's)	58	46	45	44	43	41	36	31	26	23
No. of On-line Terminals (Approx.)	3,204	2,976	1,525	1,259	978	706	405	249	189	147
No. of Remote Job Entry Station	82	92	81	108	98	94	86	67	53	42

* Restated

OPERATIONS REVIEW

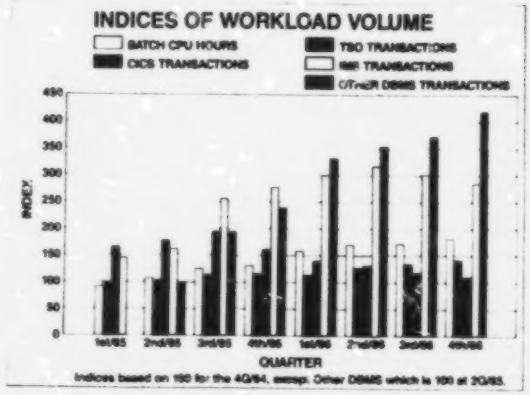
- 1986 monthly online transactions averaged 10.4 million. This represents a 14% increase over 1985.
- Batch processing usage in 1986 amounted to 3,584 hours as measured in IBM 3090 processing units.
- Revenue generated by shared processing and related services increased 24% over 1985.
- Storage capacity at all centres amounted to 347.7 billion bytes on hard disk and on the mass storage subsystem. This is a 59% increase in online storage over 1985.
- The number of magnetic tape reels and cartridges increased 26% to 57,570 units by the end of 1986. The number of tape reels in use at the end of 1985 was 45,850.
- The number of terminals accessing SaskCOMP centres at year-end was 3,204 online terminals and 82 remote job entry stations.
- Through our various training programs, SaskCOMP provided 1,123 training days in 1986.

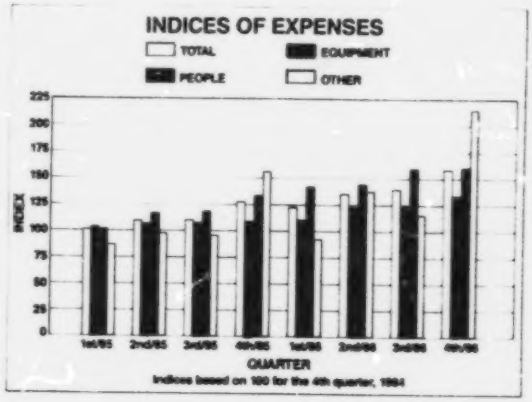
Delivery of quality service is dependent on skilled and dedicated production staff and supervisors. Production supervisors on duty at any one time are represented by:

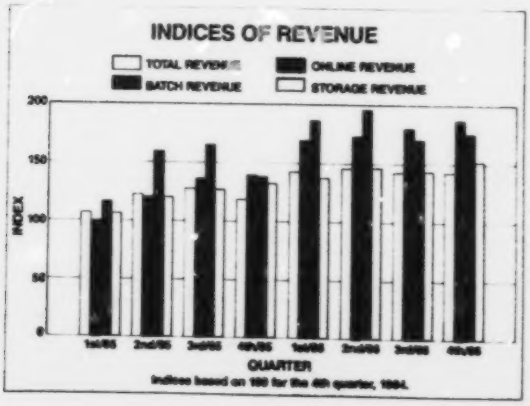
Back Row: Ed Beisel, Wayne Hauck, Walter Kaip.
Seated: Joe Schmitz, Wilfred Fellner.

OPERATIONS REVIEW CONTINUED

- The new "Disaster Recovery Services" provides a more effective "Critical Applications Recovery Services" for our shared services customers.
- The Corporation had three successful tests of its Critical Application Recovery Services.
- New IBM 3480 tape drives were installed at Regina Regional.
- Job scheduling (UCC 7) and job restart (UCC 11) systems were implemented at Regina Regional.
- The Corporation instituted the use of "Gateway" telecommunication services. This service allows customers to easily switch between their inhouse computers and SaskCOMP's shared computers.
- The Corporation experienced no major security incidents during 1986.





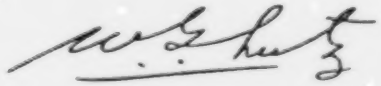


AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

I have examined the statement of financial position of the Saskatchewan Computer Utility Corporation as at December 31, 1986 and the statements of operations, retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of calculating depreciation as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.



Regina, Saskatchewan
February 26, 1987

W. G. Lutz, F. C. A.
Provincial Auditor.

STATEMENT OF FINANCIAL POSITION

	as at December 31	
	1986	1985
	(Thousand of Dollars)	
ASSETS:		
Current Assets:		
Short-term deposits	$ 3,600	3,000
Accounts receivable	4,955	4,110
Prepayments and supplies	618	448
	9,173	7,558
Net investment in leases receivable (Note 4)	169	322
Fixed assets (Note 5)	7,984	4,896
	$ 17,326	12,776
LIABILITIES AND PROVINCE'S EQUITY:		
Current Liabilities:		
Bank indebtedness	$ 885	1,204
Accounts payable and accrued liabilities	2,305	1,557
Dividend payable	940	1,178
Deferred revenue	216	–
Current portion of obligations under capital leases	1,744	1,090
	6,090	5,029
Deferred revenue	233	–
Obligations under capital leases (Note 6)	3,406	1,091
	9,729	6,120
Province of Saskatchewan's Equity		
Advances (Note 7)	2,780	2,780
Retained earnings	4,817	3,876
	7,597	6,656
	$ 17,326	$ 12,776

(See accompanying notes)

STATEMENT OF OPERATIONS

	for the year ended December 31	
	1986	1985
	(Thousand of Dollars)	
REVENUES:		
Sales of products and services	$ 26,569	21,992
Other (Note 8)	302	418
	26,871	22,410
EXPENSES:		
Operating costs other than those listed below	15,642	13,107
Rental of equipment	6,568	5,309
Depreciation and amortization	2,607	1,572
Interest	173	66
	24,990	20,054
Net earnings	$ 1,881	2,356

(See accompanying notes)

STATEMENT OF RETAINED EARNINGS

	for the year ended December 31	
	1986	1985
	(Thousand of Dollars)	
Retained earnings, beginning of year	$ 3,876	2,819
Adjustment resulting from a change in accounting policy (Note 2)	—	(121)
Retained earnings as restated	3,876	2,698
Add net earnings	1,881	2,356
Dividend – Crown Investments Corporation of Saskatchewan	(940)	(1,178)
Retained earnings, end of year	$ 4,817	3,876

(See accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	for the year ended December 31	
	1986	1985
	(Thousand of Dollars)	
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 1,881	2,356
Add (deduct) items not requiring or generating cash:		
Depreciation and amortization	2,607	1,572
Loss (gain) on sale of fixed assets	135	(33)
	4,623	3,895
Net change in non-cash working capital items	(51)	(1,328)
	4,572	2,567
Financing activities:		
Deferred revenue increase	233	—
Dividends paid	(1,178)	(2,819)
Assumption of obligations under capital leases	4,031	2,267
Repayment of obligations under capital leases	(1,062)	(86)
	2,024	(638)
Investment activities:		
Tenant inducement	1,112	—
Purchases of fixed assets	(7,010)	(3,952)
Investment in leases receivable	—	(165)
Proceeds from sales of fixed assets	68	248
Collections of leases receivable	153	517
	(5,677)	(3,352)
Net increase (decrease) in cash position	919	(1,423)
Cash position, beginning of year	1,796	3,219
Cash position, end of year	$ 2,715	1,796

(Cash position is comprised of short-term deposits less bank indebtedness)

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

December 31, 1986

1. Significant Accounting Policies

a) Depreciation of Fixed Assets

Fixed assets are depreciated without residual value as follows:

Computer Equipment – equipment used in the shared service offering - sum of the years digits - one to six years - other equipment and associated software costs - straight line - one to six years.

Office Furniture and Equipment – straight line over ten years.

Leasehold Improvements – straight line over the lesser of ten years or the expected term of occupancy.

Equipment Under Capital Leases – equipment acquired under capital leases is depreciated on the same basis as owned equipment.

b) Leases

The Corporation as lessor:

Leases are classified as operating or direct financing leases. For direct financing leases the Corporation, as lessor, records the proceeds of asset disposals and related net investment in leases receivable at the present value of the future minimum lease receipts. All other leases are classified as operating leases and lease payments are recorded as income.

The Corporation as lessee:

Leases which transfer substantially all of the benefits and risks incident to ownership are considered capital leases and the related asset and lease obligations are recorded at the present value of future minimum lease payments (less executory costs). All other leases are accounted for as operating leases and rental payments are expensed as incurred.

c) Deferred Revenue

Deferred revenue represents rebates received from suppliers on rented equipment. The rebates are amortized into operating income by reducing the related rental expense on a straight line basis over 36 months commencing February 1, 1986.

2. Change in Accounting Policy

In 1986, the Corporation changed its policy of recording depreciation expense on assets used for its shared service offering. Under the new policy these assets will be depreciated using the sum of the years digits depreciation method. The effect of this change, which has been applied retroactively, was to reduce 1986 net income by $353,117. The remaining adjustment of $121,517 is primarily applicable to years prior to January 1, 1985 and the balance of retained earnings as at that date has been adjusted accordingly.

3. Status of Corporation

The Saskatchewan Computer Utility Corporation was established in 1973 under the Saskatchewan Computer Utility Corporation Act to provide computer and data processing services to the Government of Saskatchewan and its crown corporations and agencies. These services are also available to other enterprises.

The Corporation has been designated by Order-in-Council as a corporation to which the provisions of Part II of the Crown Corporations Act, 1978 apply. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

December 31, 1986

4. Net Investment in Leases Receivable

For direct financing leases recorded in the accounts, the net investment in leases receivable is computed as follows:

	1986	1985
	(Thousands of Dollars)	
Future minimum lease payments receivable:		
1986	$ —	399
1987	145	185
1988	145	145
1989	40	40
Total future minimum lease payments receivable	330	769
Less unearned finance income	47	114
Present value of future minimum lease payments receivable	283	655
Less amount due in the next year, included in accounts receivable	114	333
Net investment in leases receivable	$ 169	322

5. Fixed Assets

	Cost	Accumulated Depreciation and Amortization	1986 Net Book Value	1985 Net Book Value
		(Thousands of Dollars)		
Computer Equipment	$ 7,747	5,752	1,995	1,978
Equipment under Capital Leases	6,389	1,578	4,811	2,141
Office Furniture & Equipment	1,163	429	734	418
Leasehold Improvements	1,871	1,427	444	359
	$ 17,170	9,186	7,984	4,896

Leasehold improvements are shown net of tenant inducements received and accrued totalling $1,112,000.

December 31, 1986

6. Obligations Under Capital Leases

Future minimum lease payments under capital leases including the present value of the net minimum lease payments as at December 31 are:

	1986	1985
	(Thousands of Dollars)	
1986	$ –	1,237
1987	2,155	1,134
1988	1,651	–
1989	1,313	–
1990	629	–
1991	300	–
Total minimum lease payments	6,048	2,371
Less amount representing interest*	898	190
Balance of obligation	5,150	2,181
Less current portion	1,744	1,090
	$ 3,406	1,091

* Floating interest rates which were initially set at rates varying from 9.02% to 10.50%.

7. Advances

Advances received from the Crown Investments Corporation of Saskatchewan are intended as long-term equity capitalization for the corporation. These advances are non-interest bearing with no fixed repayment terms.

8. Other Revenue

Included in other revenue are the following:

	1986	1985
	(Thousands of Dollars)	
Earned finance income from leasing	$ 84	165
Investment income	353	220
(Loss) gain on sale of fixed assets	(135)	33
	$ 302	418

December 31, 1986

9. Commitments

At December 31, 1986 the Corporation had the following commitments:

(a) Leased Premises

The Corporation is committed to the following future minimum lease payments for office and operating premises:

	1986
	(Thousands of Dollars)
1987	$ 1,110
1988	923
1989	861
1990	714
1991	406
	$ 4,014

In addition, in the event that the Corporation does not exercise its option to renew its office premises lease for an additional 5 year term commencing September 1, 1991, it is obligated to pay a penalty of $407,650 representing a repayment of a portion of previously received tenant inducements. In the event that this payment is required, it would be recorded as a charge to income in the year paid.

(b) Leased Equipment

The Corporation has entered into operating lease agreements for computer and communications equipment with provision for future minimum lease payments as follows:

	1986
	(Thousands of Dollars)
1987	$ 5,801
1988	5,600
1989	1,824
1990	759
1991	27
	$ 14,011

10. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies, and corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the financial statements and the notes thereto.